

# The Mississippi Reforestation Investment Program:

## A Proposed Model for Government-Sponsored Reforestation Loans

*John E. Gunter, Professor of Forestry, Mississippi State University;  
Joshua O. Idassi, Extension Forestry Specialist, Tennessee State University; and  
James E. Granskog, Project Leader, USDA-Forest Service*

Each year in Mississippi and across the South tens of 1,000s of acres of nonindustrial, private forest lands are not being properly regenerated after timber harvest.

One reason some forest landowners do not regenerate is the lack of funds and the absence of pertinent long-term credit to finance reforestation investments. The proposed Mississippi Reforestation Investment Program (MRIP) is designed to address this credit market failure.

### The Basic Concept

The basic concept is for the State of Mississippi to sell long term, zero-coupon municipal bonds and use the proceeds from the sale of the bonds to finance reforestation investments on suitable NIPF lands. Qualifying landowners would receive a loan covering up to 100% of the cost of reforesting a property. Principal and interest on the loan would be repaid from the revenue generated from future timber sales resulting from the reforestation investment.

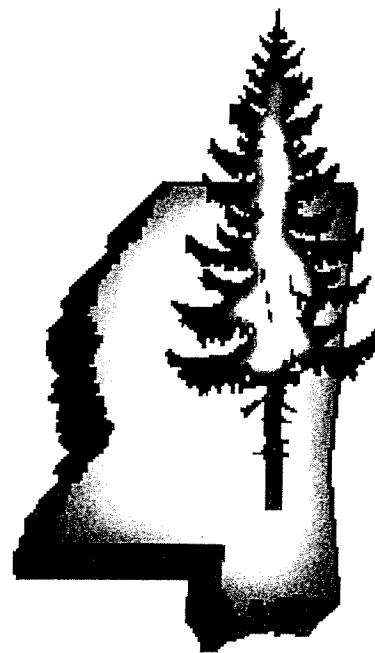
We feel that with minimal modifications this concept could be implemented in other states, at the federal level and perhaps even at the local level.

### The Model Mississippi Reforestation Investment Program

#### 1. Source of Funds

Funds to finance the program would be raised by the State of Mississippi through the sale of bonds. Additionally, the State may enter into agreements with other private (e.g., forest products or energy companies) or governmental organizations and may accept contributions, gifts or grants from any source to carry out the duties, functions, and the powers of MRIP.

We suggest that the State and its agents promote MRIP and explore funding from the energy companies. Energy companies could receive carbon sequestration credits to offset their greenhouse gas emissions for the trees planted with the funds they provide, plus interest monies from long term bonds.



#### 2. Reforestation Loan

The reforestation loan monies raised from the bond issue would be used to fund up to 100% of the cost of reforestation (i.e., site preparation and planting) of suitable old field and cut-over pine sites.

#### 3. Rate of Interest

The rate of interest charged on the reforestation loan should be very competitive and would be equal to that paid by the State on the bond issue plus a small charge for loan administration. If energy companies will invest their funds in MRIP, the interest rate on long term bonds may be well below the market rate, because the energy companies could also receive carbon offset credits,

#### 4. Payment Schedule

Payment of principal and interest on the reforestation loan would be postponed until the trees are harvested. A

minimum payment of 50 % of net sales revenue would be required at all thinings. The loan could be repaid in whole or in part at any time; but has to be paid in full by the end of 35 years.

#### 5. Collateral

Collateral would be required to secure a reforestation loan under MRIP. If the land is owned free and clear, the insured standing trees could serve as collateral. If there is an existing first mortgage on the land, the state would take a second mortgage on the land and standing trees, provided the leftover value is sufficient to secure the loan. It is recommended that the lien on standing trees incorporate the steps taken by the Oregon Forest Resource Trust in addressing the issue of collateral (OR. Rev. Stat. § 526.740 (2) 1995). That is:

*"The lien created is a general lien upon all (trees) . . . whether standing . . . severed . . . or made into forest products . . . the lien also attaches to accounts receivable evidencing indebtedness of the purchaser or mill."*

#### 6. Eligibility

Only non-industrial, private forest landowners who are residents of Mississippi would be allowed to participate in the program. Non-resident landowners would be eligible only if they are co-owners with a Mississippi resident. At least one co-owner would have to be a Mississippi resident at the initiation of a loan.

#### 7. Minimum Acreage

The land area reforested under the program would have to be at least 10 acres in size.

#### 8. Lifetime Loan Cap

There would be a \$50,000 lifetime loan cap per forest landowner.

#### 9. Insurance

Losses to seedling mortality, fire, wind and ice storms, insects and diseases, and theft would be covered through a self-insurance program administered by the State to cover 100 % of the value of the reforestation loan for the entire rotation. A one time, up front insurance premium would be added to the reforestation loan.

#### 10. Other State and Federal Reforestation Incentive Programs

The Mississippi Reforestation Investment Program could only be used in conjunction with the Mississippi Reforestation Tax Credit and the Federal income tax incentives for reforestation.

#### 11. Program Administration

The Mississippi Forestry Commission would provide on-the-ground technical assistance to borrowers, while the

Mississippi Development Authority would handle the record keeping and those financial activities related to making the loans. A trust should be set up to administer funds from external sources such as energy companies.

#### Will it work financially?

Results of a marginal analyses of cash flows from an MRIP-financed reforestation investment versus doing nothing revealed that returns are quite attractive across a broad range of soil productivities and lending rates. It appears likely that MRIP could generate significant wealth for landowners at no net cost to the State.

*Acknowledgement: The authors gratefully acknowledge the funding provided for this work by the USDA-Forest Service and the Mississippi Forestry Commission.*

**Keith Polk,**  
Forestry Suppliers  
Technical Specialist  
Considers himself  
"Picasso of the Pines."

When you're under the gun to mark 200 acres, productivity is the only thing on your mind. That's why Aervoe marking paints are formulated for trouble-free performance and long-lasting, durable marks.

Aervoe Paints are just some of the more than 9,000 products offered by Forestry Suppliers. Call 800-360-7788 today for your free catalog, or visit us on the web at [www.forestry-suppliers.com](http://www.forestry-suppliers.com).

**Free Catalog**  
800-360-7788

**Forestry Suppliers, Inc.**  
[www.forestry-suppliers.com](http://www.forestry-suppliers.com)